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THE UNDERLYING PRINCIPLE OF THE PROFIT-SHARING, BENEFIT AND PENSION PLANS

OF

The International Harvester Company

BY

GEO. W. PERKINS

BEFORE

THE NATIONAL CIVIC FEDERATION

NOVEMBER 23, 1909

16 March, 1920 - C. R. W.

The Underlying Principle of the Profit-Sharing, Benefit and Pension Plans

OF

THE INTERNATIONAL HARVESTER COMPANY

In the progress and development of American business methods there is probably no subject more worthy the attention of the Civic Federation than the one which is under discussion at this conference; for profit sharing, insurance, pensions, welfare work, etc., are vital elements in the relations between capital and labor.

If, as many of us have come to believe, co-operation in business is taking and should take the place of ruthless competition,—if this new order of things is better for capital and better for the consumer, then in order to succeed permanently it must demonstrate that it is better for the laborer; and if profit sharing, pensions, insurance, and the like mean anything, they must mean co-operation between capital and labor,—co-operation in the broadest, most helpful and enduring form.

Plans for profit sharing, pensions, and the like, are not new in American business. They have been tried off and on, here and there, in various forms, for a long time, and up to a few years ago many of them had fallen more or less short of success. It is my judgment that the reason for this can be found almost wholly in the fact that the unsuccessful plans did not embody a true, an honest, and a fair spirit of co-operation. A secret, perhaps al-

most an unconscious purpose existed to benefit the business in question out of proportion to the labor employed in the business; and no such plan having such a purpose can permanently succeed, for the selfish points in it will work to the surface sooner or later, and cause failure.

On the other hand, there should be no sentimental philanthropy about this great question. It is purely a business question. Profit sharing, pensions, and the like, from a pecuniary standpoint, are a profitable thing for a business and also for its labor, or for neither. No American, worthy of being called a man, wants something for nothing.

Because of the enormous growth of business affairs in the United States many business concerns have passed beyond the period where one man or even twelve men can keep a close supervision over all the branches of a given business undertaking. Now it goes without saying that no business will run itself,—either in its executive functions or in the machines themselves at the factory or plant. In all the inventions and ingenuity that have been brought to bear on business affairs in the last quarter of a century, nothing has been found to take the place of the human mind. Nothing has been found to take the place of individual incentive to accomplish results. Nothing has been found to take the place of a man's ability to do,—with a proper incentive behind that ability,—and no such substitute ever will be found. It is, therefore, of the utmost importance to American business interests of to-day and to-morrow that every man in any given concern be so associated with that concern that he will give the best there is in him to the performance of the duties assigned to him. There is a vast difference be-

tween the work that a human being performs in a perfunctory, machine-like manner, and the work that he performs with a keen, loyal interest in what he is doing; and in just this difference does success come to the individual and come to a large concern, if it be so fortunate as to have a force of individuals who are working with this spirit.

If profit sharing means anything, if providing for old age means anything, if caring for those who become ill or injured while in the service means anything, it should mean the fostering of the interest of men in their work, whether that work be sweeping out the office, shoveling coal, or presiding over a great commercial company. In short, it should mean real co-operation between stockholders, managers and employees.

The management of the International Harvester Company, its subsidiary and affiliated companies, believing in the above theories, set out several years ago to see how nearly it could come to applying them practically to its business. As a result it has devised and put into effect plans covering the following:

First.—Profit sharing.

Second.—Insurance covering sickness, accident and death.

Third.—Old age pensions.

Briefly stated, these three plans are as follows:

First.—*Profit Sharing.*—The profit sharing is divided into two heads,—the first one being a certain sum of money set aside by the Company in cash out of its earnings each year,—the size of the sum depending on the size of the company's profits,—the percentage scale being

stated. This is for immediate distribution in cash among the men who make a satisfactory showing for the year.

The distribution of the Sales Department's share in these profits is based upon two important points,—first, increase of sales; second, reduction of selling expense.

In the Works, the profits are distributed for increased production, decreased cost, or a combination of both.

Employees in any branch of the company's service, showing marked ability during the year, are entitled to receive recognition under this profit sharing plan.

The second classification of profit sharing is the sale of the company's stock to its employees. This stock is purchased outright by the subscriber on an instalment plan. The total amount that any employee is allowed to subscribe for is limited to the amount of his annual salary, and he cannot pay in excess of 25% of his salary in any one year; therefore, all are treated alike.

12,500 shares of preferred stock and 15,000 shares of common stock were offered for sale last July at a price below the then market value. In addition to the regular dividends there is allowed a bonus of $4 and $3 respectively, on each share of the preferred and common stock, each year for five years,—the only condition being that a man must be in good standing in the company's service during each of these years, have his stock, and either have paid or be paying for it. In such cases, as the men leave the company's service or discontinue paying for their stock, the company continues placing these $4 and $3 payments on such stock into a fund, and at the end of five years this fund will be divided among such subscribers as fully paid for their stock and remained in good standing in the company's service during the five-

year period. The result of this plan, in a word, is that a man begins to buy a share of the company's stock at a price below the market value; he is allowed to pay for it in instalments, paying 5% interest on deferred payments; he is credited with 7% dividends on the preferred stock and whatever dividends are declared on the common stock. In addition to this, he is credited with, respectively $4 and $3 per share, each year, on the preferred and common stock, and at the end of five years receives a further benefit by way of a share in a fund made up of such $4 and $3 deposits as are made by the company on account of those who do not continue under the plan. It will be seen that this offers the men an exceedingly satisfactory form of investment in the business in which they are employed, and gives to the company the great advantage of anchoring its organization to the business.

The stock offered last summer was largely over-subscribed and the company to-day has over 4,300 employees as stockholders.

SECOND.—*The Company's Benefit Plan.* On Sept. 1st, 1908, the Employees' Benefit Association of the International Harvester Company was inaugurated. This Association was organized for the men, and it is to-day run by the men. It is governed by a Board of 30 Trustees, one-half of whom are elected by ballot. The contributions are 2% of the employee's wages or salary, and the benefits derived are as follows: Two years' pay for death due to accident; one year's pay for death due to sickness, and half pay for disability due either to sickness or accident, &c.

The membership in this Association is purely volun-

tary, and any one joining and later receiving benefits is not required to waive any legal rights. That this may be a co-operative movement the company's share in the plan is an annual contribution of $50,000 to this Association, provided the average membership equals 75% of the employees in the factories and works. Over 75% have joined and therefore the company is making its contribution of $50,000.

The best answer as to whether the men approve of this Association is made by stating that 21,600 people are contributing members to it.

In the first 14 months of its existence over $200,000 has been disbursed in benefits.

THIRD.—*The Pension Plan.* The pension plan was inaugurated as a recognition of long and faithful service. All employees 70 years of age and over, and who have worked for 20 years, are pensioned; while employees who have reached the age of 65 years, may voluntarily apply for a pension. The minimum amount of pension is $18 per month and the maximum $100 per month. The company has not favored higher salaried employees at the expense of the laboring man. All pensions are figured on the same basis,—that is, on the pay a man receives during his employment, and on his length of service; therefore, there are no inequalities in the amounts paid.

All the benefits and expense of the pension plan are borne by the company itself,—no contribution of any kind or nature being made to this plan by the employees.

The company is also doing welfare work. It is called welfare work for lack of a better name. It is as much a business branch of the company as any other division.

The important features of this work are protection against injury, sanitation, health, educational work, charities, recreation, &c. The welfare work is controlled by an Advisory Board composed of the Superintendents of all of the Works, who, through an Executive Committee, dictate the welfare activities of the company. Special attention is given to protection against injury and to sanitation. The accident hazard can never be removed because of the human element; that is beyond the realm of possibility. Therefore, the company is trying to arrive at the point where the occupation is surrounded with every known safeguard and only the man is the hazard. The foreman of each department is impressed with the fact that he is the one who is responsible for the safety of his men, and by securing the co-operation of every one it is hoped to establish a standard that will be of benefit and use to others. Improved sanitary conditions mean better health, and better health means better work,—and this matter is having the constant attention of the company's managers of welfare.

In the year 1908 the Harvester Co. spent about $100,000 in its welfare work. This year it will probably spend a somewhat larger sum.

The Company has been criticized by managers of other companies for making the plan above outlined too liberal and attractive. It has been said that the plans will be too expensive to the Harvester Company and that their cost will be very large. There is no doubt of the truth of this criticism insofar as the cost goes. No concern has ever put out plans that involved the application of so large a percentage of its profits to such plans. But the Harvester Company did not do this out of pure phil-

anthropy. It had no intention of passing around a hat full of money, that employees might help themselves. It went into these enterprises in a purely business spirit, believing that the plans would so knit its vast organization together, would so stimulate individual initiative, would so strengthen and develop the *esprit de corps* of the organization as to make it possible for the Company to increase its business and its earnings,—and with the spirit of being willing to share this increased success with its organization. So far the Company has every reason to congratulate itself on the result. In all parts of the Company's business, at home and abroad, in the office force, in the factories, in the sales department,—everywhere, the average interest of the individual in the business is greater than formerly. The saving of the waste here, there and everywhere, is noticeable. The employees throughout the organization are vying with one another more and more to improve their respective branches of the business. This means profits for the stockholders, means extra compensation in various ways for the employees,—in short, means co-operation that is real, that is beneficial to one and all.

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